

Berrien County Road Commission

**Financial Report
with Supplemental Information
September 30, 2008**

Berrien County Road Commission

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Independent Auditor's Report

To the Board of Road Commissioners
Berrien County Road Commission

We have audited the accompanying financial statements of the governmental activities and major governmental fund of the Berrien County Road Commission (a component unit of Berrien County, Michigan) (the "Road Commission") as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major governmental fund of the Berrien County Road Commission at September 30, 2008 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information are not required parts of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Berrien County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

December 29, 2008

Berrien County Road Commission

Management's Discussion and Analysis

This section of Berrien County Road Commission's (the "Road Commission") annual financial report presents our discussion and analysis of the Road Commission's financial performance during the fiscal year ended September 30, 2008. Please read it in conjunction with the Road Commission's financial statements, which follow this section.

Financial Highlights

- The Road Commission's total net assets decreased by approximately \$.4 million.
- Total expenditures of \$16.5 million exceeded total revenue sources for the year of \$16.1 million by \$.4 million before the inclusion of the contribution of infrastructure.
- Approximately \$6.0 million was invested in capital assets during the year.
- The obligation for postemployment benefits has been reflected using the alternative measurement method permitted by GASB Statement No. 45 for employers with fewer than 100 plan members.

Overview of the Financial Statements

This annual report consists of a series of financial statements. The governmental fund balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis and then in total on a full accrual basis. The modified accrual fund-based column presents a short-term view of the Road Commission; it tells us how much is available for future spending. The total full accrual column is intended to present a longer-term view and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis and then in total on a full accrual basis. The modified accrual fund-based column tells us how the taxpayers' money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with more detail regarding revenue, expenditures, and changes in fund balances.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Financial Analysis of the Road Commission as a Whole

Net Assets - The Road Commission's net assets decreased during 2008 by \$.4 million, ending the year at \$82.9 million. The table below shows the composition of the Road Commission's net assets at September 30, 2008, 2007, and 2006:

	Governmental Activities		
	2008	2007	2006
Assets			
Current and other assets	\$ 7,388,178	\$ 7,536,293	\$ 8,444,524
Capital assets	79,866,345	79,402,656	79,731,840
Total assets	87,254,523	86,938,949	88,176,364
Liabilities			
Long-term liabilities outstanding	2,050,770	2,012,344	2,291,031
Other liabilities	2,336,413	1,679,606	1,927,320
Total liabilities	4,387,183	3,691,950	4,218,351
Net Assets			
Invested in capital assets - Net of related debt	77,626,545	77,017,856	76,922,040
Restricted for debt service	171,386	168,566	194,611
Unrestricted	5,069,409	6,060,577	6,841,362
Total net assets	<u><u>\$ 82,867,340</u></u>	<u><u>\$ 83,246,999</u></u>	<u><u>\$ 83,958,013</u></u>

Changes in Net Assets - The Road Commission's change in net assets was due primarily to the capitalization of current year infrastructure expenditures included in capital assets. Infrastructure consists of constructing or reconstructing roads, bridges, and intersections. Other changes include various revenue sources and expense categories as shown on the next page.

The Michigan Transportation Fund revenue is a statutory formula that is structured to share various fuel tax and license fees collected by the State of Michigan with cities, road commissions, and the Michigan Department of Transportation. This revenue item is the primary source of revenue for the Road Commission. For 2008, there was a \$268,000 decrease in Michigan Transportation Funds receipts, an increase of \$1,110,000 in federal and state aid due to timing of projects receiving these funds, and a \$200,000 decrease in revenue from local governments. Other revenue increased \$400,000 due to higher revenue received from the Michigan Department of Transportation (MDOT) for nonmaintenance projects on MDOT roads.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Expenditures were \$700,000 above 2007. The increase in expenses is primarily attributed to higher maintenance costs due to increased cost of road materials and snow removal costs in 2008. The remainder of the increase was attributed to more state nonmaintenance projects in 2008.

	Governmental Activities		
	2008	2007	2006
Revenue			
State aid - Act 51	\$ 10,567,848	\$ 10,836,127	\$ 10,791,321
Federal/State sources	2,348,258	1,238,005	1,891,407
Revenue from local governments	1,891,477	2,091,720	2,001,984
Other	<u>1,300,203</u>	<u>891,570</u>	<u>499,757</u>
Total revenue	16,107,786	15,057,422	15,184,469
Expenses			
Maintenance	10,342,757	9,156,352	7,545,698
Administrative	1,193,193	1,231,795	1,162,287
Depreciation	5,449,031	5,505,183	5,400,204
Interest and other	<u>(497,536)</u>	<u>(124,894)</u>	<u>(200,274)</u>
Total expenses	<u>16,487,445</u>	<u>15,768,436</u>	<u>13,907,915</u>
Change in Net Assets	<u><u>\$ (379,659)</u></u>	<u><u>\$ (711,014)</u></u>	<u><u>\$ 1,276,554</u></u>

Financial Analysis of Commission's Funds

The Road Fund fund balance ended the year at \$5.1 million, which is \$585,000 less than the previous year. Portions of this balance are reserved for anticipated needs in the near future. The total reserved fund balance is \$350,000. The remaining unreserved fund balance is \$4.8 million.

Road Fund Budgetary Highlights

The Road Commission amended its 2008 budget on one occasion during the year to reflect changes in budgeted projects and activities. The final expenditure budget was \$2.9 million lower than the original budget. Expenses were decreased primarily as a result of a reduction in road projects in 2008.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Capital Assets

The Road Commission had \$79.9 million in net capital assets at the end of the year, which includes \$62.8 million of infrastructure activities.

Economic Factors and Next Year's Budget

The Michigan Transportation Fund (MTF), the repository of fuel taxes and vehicle registration fees collected by the State, is the principal source of Road Commission funding. Based on the last 12-month MTF revenue collection report by the Department of Treasury, the MTF is lower than the previous year, which resulted in a decrease of \$268,000 to the Road Commission in fiscal year 2008.

The money received from the Michigan Transportation Fund in 2009 is expected to be 4 percent lower than in 2008. This will result in fewer road construction projects for 2009 due to the higher road material costs and employee benefit costs that will not be offset by any additional revenue to cover the increases.

World political conditions may affect crude oil prices which may affect the Road Commission's costs of fuel for operations and asphalt paving prices. A significant cost increase in these commodities may result in workload adjustments and project deferrals.

Contacting the Road Commission's Financial Management

This financial report is designed to provide a general overview of the Road Commission's finances and accountability of the public trust. Questions regarding any of the information provided in this report or requests for additional information should be addressed to the director of finance, Berrien County Road Commission, P.O. Box 768, Benton Harbor, MI 49023-0768 or visit our webpage at www.bcroad.org.

Berrien County Road Commission

Governmental Fund Balance Sheet/Statement of Net Assets September 30, 2008

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
Assets			
Cash and investments (Note 3)	\$ 2,994,788	\$ -	\$ 2,994,788
Restricted cash - Debt service (Note 3)	171,386	-	171,386
Due from other government units	2,731,881	-	2,731,881
Inventory	952,499	-	952,499
Prepaid expenses	179,890	-	179,890
Deferred expense	357,734	-	357,734
Capital assets - Net (Note 4):			
Assets being depreciated	-	65,159,806	65,159,806
Assets not being depreciated	-	14,706,539	14,706,539
Total assets	<u>\$ 7,388,178</u>	79,866,345	87,254,523
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	\$ 1,359,499	-	1,359,499
Advances	482,914	-	482,914
Deferred revenue (Note 5)	423,681	(423,681)	-
Escrow	4,000	-	4,000
Long-term obligation for retiree healthcare benefits (Note 9)	-	220,970	220,970
Long-term debt - Due within one year (Note 7)	-	490,000	490,000
Long-term debt - Due in more than one year (Note 7)	-	1,749,800	1,749,800
Compensated absences (Note 6)	-	80,000	80,000
Total liabilities	2,270,094	2,117,089	4,387,183
Fund Balances			
Reserved for debt service	171,386	(171,386)	-
Reserved for prepaid expenses	179,890	(179,890)	-
Unreserved	4,766,808	(4,766,808)	-
Total fund balances	<u>5,118,084</u>	<u>(5,118,084)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 7,388,178</u>		
Net Assets			
Investments in capital assets - Net of related debt		77,626,545	77,626,545
Restricted for debt service		171,386	171,386
Unrestricted		5,069,409	5,069,409
Total net assets		<u>\$82,867,340</u>	<u>\$ 82,867,340</u>

Berrien County Road Commission

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended September 30, 2008

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
Revenue			
State aid - Act 51	\$ 10,567,848	\$ -	\$ 10,567,848
Federal/State sources	2,578,258	(230,000)	2,348,258
Revenue from local governments	1,181,557	-	1,181,557
Special assessments	125,328	(125,328)	-
Contribution of infrastructure	-	709,920	709,920
Interest, fees, and other revenue	1,158,639	141,564	1,300,203
Total revenue	15,611,630	496,156	16,107,786
Expenditures			
Current:			
Primary heavy maintenance	3,423,952	(3,423,952)	-
Primary heavy maintenance - Safety	3,723	(3,723)	-
Primary heavy maintenance - Bridges	536,997	(536,997)	-
Local heavy maintenance	498,744	(465,587)	33,157
Local heavy maintenance - Safety	6,273	(6,273)	-
Local heavy maintenance - Bridges	200,121	(200,121)	-
Primary maintenance	4,446,735	-	4,446,735
Local maintenance	4,926,885	-	4,926,885
State maintenance	74,773	-	74,773
State nonmaintenance	827,522	-	827,522
County drain assessments	33,685	-	33,685
Administrative	1,265,843	(72,650)	1,193,193
Net capital outlay	(287,379)	287,379	-
Less equipment rental charged to other expenditures	174,098	(733,823)	(559,725)
Depreciation expense	-	5,449,031	5,449,031
Debt service:			
Principal retirement	645,000	(645,000)	-
Interest/Fees	62,189	-	62,189
Total expenditures	16,839,161	(351,716)	16,487,445
Excess of Expenditures Over Revenue	(1,227,531)	847,872	(379,659)
Other Financing Sources			
Proceeds from issuance of long-term debt	500,000	(500,000)	-
Proceeds from sale of assets	142,622	(142,622)	-
Total other financing sources	642,622	(642,622)	-
Change in Fund Balance/Net Assets	(584,909)	205,250	(379,659)
Fund Balance/Net Assets - Beginning of year	5,702,993	77,544,006	83,246,999
Fund Balance/Net Assets - End of year	<u>\$ 5,118,084</u>	<u>\$77,749,256</u>	<u>\$ 82,867,340</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 1 - Significant Accounting Policies

Berrien County Road Commission (a component unit of Berrien County, Michigan) (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the county road system in Berrien County. The Road Commission's financial statements will be included in the basic financial statements of the County of Berrien, Michigan.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of government-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and have been separately stated in conjunction with the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 1 - Significant Accounting Policies (Continued)

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Inventory and Prepaid Items - Inventory, principally consisting of road material, salt, signs, and equipment maintenance materials, is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, culverts, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life of three years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at estimated fair market value at the date of donation.

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 1 - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line, units of production, or sum of years - digits methods over the following useful lives:

	Methods	Useful Lives - Years
Buildings	Straight-line	40
Salt storage bins	Units of production	Various
Road equipment	Sum of years - Digits	5-8
Other equipment	Straight-line	10-20
Roads	Straight-line	5-30
Other infrastructure	Straight-line	12-50

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to allow employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund only for employee terminations as of year end. The Road Commission does not accrue for unused sick pay benefits.

Long-term Obligations - Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statement column. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Other accounting policies are disclosed in the following notes to the financial statements.

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statement column are different from amounts reported in the governmental fund column because of the following:

Governmental fund - Fund balance	\$ 5,118,084
Capital assets used in governmental activities are not financial resources and are not reported in the fund	79,866,345
Amounts due from federal government not collected within 60 days of year end are not available to pay for current year expenditures and are deferred in the fund	423,681
Long-term liabilities are not due and payable in the current period and are not reported in the fund	(2,239,800)
Long-term postretirement benefit obligations are not due and payable in the current period and are not reported in the fund	(220,970)
Compensated absences are not reported in the fund	<u>(80,000)</u>
Total government-wide net assets	<u>\$ 82,867,340</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balance - Total governmental fund	\$ (584,909)
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The governmental fund reports capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year additions	5,204,173
Depreciation	(5,449,031)

Contributions of infrastructure are recorded in the statement of activities, but are not recorded in the governmental fund	709,920
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In the statement of activities, only the loss on the sale of capital proceeds is reported, whereas in the governmental fund, the proceeds from the sale is reported. Therefore, the change in net assets differs from the fund balance by the net book value of the assets sold	(1,373)
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Payments of accumulated employee vacation payable are recorded as an expense when earned in the statement of activities	10,217
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Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	645,000
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Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets	(500,000)
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In the governmental fund, special assessment and grant receipts not collected within 60 days of year end are not available to pay for current year expenditures; whereas in the statement of activities, revenue is recognized when earned	(355,013)
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In the statement of activities, long-term postretirement benefit obligations are reported as expense, but not in the governmental fund	<u>(58,643)</u>
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Change in net assets of governmental activities	<u>\$ (379,659)</u>
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Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated two banks for the deposit of its funds, in addition to funds held by Berrien County. The Road Commission follows the investment policy adopted by Berrien County. In accordance with Public Act 196 of 1997, the policy has authorized investment in bonds and securities and other obligations of the United States government; bank accounts and certificates of deposit; limited commercial paper, not to exceed 25 percent of any fund; repurchase agreements limited to United States government investments; and certain investment pools, excluding mutual funds. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had approximately \$102,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Fannie Mae pooled investments	\$ 1,201,279	17.3 years
Freddie Mac pooled investments	1,036,317	14.8 years
U.S. Treasury pooled investments	168,574	8.1 years
Ginnie Mae pooled investments	5,180	27.6 years

Credit Risk

State law limits investment in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices. As of year end, the credit quality rating of U.S. agencies' securities (other than U.S. government) was AAA by Standard & Poor's.

Concentration of Credit Risk

The Road Commission places no limit on the amount that may be invested in any one issuer. More than 5 percent of the Road Commission's investments are in the following investments:

Investment	Percent
Fannie Mae pooled investments	49.82%
Freddie Mac pooled investments	42.98%
United States Treasury pooled investments	6.99%

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 4 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance (as Adjusted)	Increase	Decrease	Ending Balance
Governmental Activities				
Capital assets not being depreciated -				
Land and land improvements	\$ 13,903,296	\$ 803,243	\$ -	\$ 14,706,539
Capital assets being depreciated:				
Buildings and storage bins	2,153,385	38,043	-	2,191,428
Road equipment	10,938,250	513,256	971,553	10,479,953
Other equipment	982,682	16,221	-	998,903
Infrastructure	<u>128,795,752</u>	<u>4,543,330</u>	<u>-</u>	<u>133,339,082</u>
Subtotal	142,870,069	5,110,850	971,553	147,009,366
Less accumulated depreciation:				
Buildings and storage bins	1,595,465	65,095	-	1,660,560
Road equipment	9,111,504	733,823	970,180	8,875,147
Other equipment	706,125	55,981	-	762,106
Infrastructure	<u>65,957,615</u>	<u>4,594,132</u>	<u>-</u>	<u>70,551,747</u>
Subtotal	<u>77,370,709</u>	<u>5,449,031</u>	<u>970,180</u>	<u>81,849,560</u>
Net capital assets being depreciated	<u>65,499,360</u>	<u>(338,181)</u>	<u>1,373</u>	<u>65,159,806</u>
Net capital assets	<u>\$ 79,402,656</u>	<u>\$ 465,062</u>	<u>\$ 1,373</u>	<u>\$ 79,866,345</u>

The Road Commission had commitments for construction contracts totaling approximately \$835,000 at September 30, 2008.

Note 5 - Deferred Revenues

Deferred revenues for the year ended September 30, 2008 were as follows:

Due from federal government	<u>\$ 423,681</u>
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Deferred revenue was reclassified to net assets on the government-wide financial statements since these amounts represent revenue earned in prior years.

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 6 - Other Long-term Liabilities

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, employees earn vacation time based on length of service with the Road Commission.

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the Road Commission as of September 30, 2008:

	Interest Rate	Maturing Through	Beginning Balance	Additions	Reductions	Principal Outstanding	Amount Due Within One Year
General obligations:							
1998 Michigan Department of Transportation Bond	4.00%	2008	\$ 125,000	\$ -	\$ (125,000)	\$ -	\$ -
2000 Michigan Department of Transportation Bond	4.5% to 4.75%	2010	1,540,000	-	(350,000)	1,190,000	350,000
Berrien Township - Note payable	0%	2014	319,800	-	(50,000)	269,800	50,000
Watervliet Township - Notes payable	0%	2018	350,000	500,000	(70,000)	780,000	90,000
Oronoko Township - Note payable	0%	2007	22,200	-	(22,200)	-	-
Buchanan Township - Note payable	0%	2007	27,800	-	(27,800)	-	-
Total			<u>\$ 2,384,800</u>	<u>\$ 500,000</u>	<u>\$ (645,000)</u>	<u>\$ 2,239,800</u>	<u>\$ 490,000</u>
Other long-term obligations:							
Obligation for retiree healthcare benefits	N/A	N/A	\$ 162,327	\$ 58,643	\$ -	\$ 220,970	\$ -
Employee compensated absences	N/A	N/A	90,217	-	(10,217)	80,000	-
Total			<u>\$ 252,544</u>	<u>\$ 58,643</u>	<u>\$ (10,217)</u>	<u>\$ 300,970</u>	<u>\$ -</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 7 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended September 30, 2008:

Balance - Beginning of year	\$ 2,384,800
Debt proceeds	500,000
Debt retired	<u>(645,000)</u>
Balance - End of year	<u><u>\$ 2,239,800</u></u>

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of September 30, 2008 (excluding liabilities for compensated absences and obligation for retiree healthcare benefits) are as follows:

Fiscal Years Ending September 30	Principal	Interest	Total
2009	\$ 490,000	\$ 47,838	\$ 537,838
2010	540,000	30,300	570,300
2011	580,000	10,450	590,450
2012	140,000	-	140,000
2013	140,000	-	140,000
2014-2018	<u>349,800</u>	<u>-</u>	<u>349,800</u>
Total	<u><u>\$ 2,239,800</u></u>	<u><u>\$ 88,588</u></u>	<u><u>\$ 2,328,388</u></u>

Interest

Interest expense of the Road Commission for the year ended September 30, 2008 was \$62,189.

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 8 - Risk Management

The Road Commission is exposed to various risks related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for torts, errors and omissions, and for medical benefit claims. The Road Commission participates in the Michigan County Road Commission Self-insurance Pool for torts, errors and omissions, and property liability. The Road Commission participates in the County Road Association Self-insurance Fund for workers' compensation insurance. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan County Road Commission Self-insurance Pool and County Road Association Self-insurance Fund programs operate as a common risk-sharing management program for road commission units in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Budget Information

The annual budget is prepared by the Road Commission's management and adopted by the Board of Road Commissioners; subsequent amendments are approved by the Board of Road Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of Road Commissioners is included in the body of the required supplemental information.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Commission incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
Primary heavy maintenance	\$ 3,000,000	\$ 3,423,952

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 9 - Budget Information (Continued)

The budget overage is due to a reclassification of project costs between primary road heavy maintenance and primary road safety. Primary road safety has a favorable budget variance of \$496,277.

Note 10 - Postemployment Benefits

Plan Description

The Road Commission provides retiree healthcare benefits to eligible employees. This is a single employer defined benefit plan administered by the Road Commission. The benefits are provided under the collective bargaining agreement for union employees and by the Road Commission resolution for nonunion employees.

Funding Policy

The agreements require a contribution of \$370 per month for married employees and \$220 per month for single employees. The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a pay-as-you-go basis). Therefore, the Road Commission has elected not to fund the plan in advance.

The Road Commission's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer. The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 plan members. ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize the actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Road Commission's annual OPEB cost for the year was \$58,643. No contributions were made to the plan during the year ended September 30, 2008. As of September 30, 2008, there were nine retirees participating in the plan and premiums paid by the Road Commission totaled approximately \$21,000.

Berrien County Road Commission

Notes to Financial Statements September 30, 2008

Note 11 - Defined Benefit Pension Plan

Plan Description

The Road Commission participates in the Berrien County Employees Amended Retirement Plan, a county public employee retirement system, which is a cost-sharing multiple-employer PERS that covers all full-time employees of the Road Commission. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Berrien County Employees Amended Retirement Plan issues a publicly available financial report that includes financial statements and required supplemental information for the plan. That report may be obtained by writing to the system at the Berrien County Courthouse, 811 Port Street, St. Joseph, Michigan 49085.

Funding Policy

The obligation to contribute to and maintain the plan for these employees was established by commission resolution and requires a contribution from the employees of 6 percent of compensation. The Road Commission is required to contribute at an actuarially determined rate, currently 8.71 percent of payroll. The Road Commission's contributions to the plan for the years ended September 30, 2008, 2007, and 2006 were \$298,900, \$295,804, and \$197,627, respectively. The contributions are equal to or greater than the required contributions for each year.

Required Supplemental Information

Berrien County Road Commission

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended September 30, 2008

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Act 51	\$ 10,341,564	\$ 10,473,243	\$ 10,567,848	\$ 94,605
Federal/State sources	7,167,300	3,794,464	2,578,258	(1,216,206)
Revenue from local governments	548,000	518,883	1,181,557	662,674
Special assessments	-	125,000	125,328	328
Interest, fees, and other revenue	140,000	120,395	1,158,639	1,038,244
Total revenue	18,196,864	15,031,985	15,611,630	579,645
Expenditures				
Current:				
Primary construction	5,000	-	-	-
Primary heavy maintenance	6,480,000	3,000,000	3,423,952	(423,952)
Primary heavy maintenance - Safety	510,000	500,000	3,723	496,277
Primary heavy maintenance - Bridges	1,002,000	700,000	536,997	163,003
Local heavy maintenance	372,000	449,541	498,744	(49,203)
Local heavy maintenance - Safety	170,000	100,000	6,273	93,727
Local heavy maintenance - Bridges	693,000	300,000	200,121	99,879
Primary maintenance	4,600,000	4,892,650	4,446,735	445,915
Local maintenance	5,100,000	5,048,643	4,926,885	121,758
Administrative	1,310,000	1,283,370	1,265,843	17,527
State maintenance	55,000	75,141	74,773	368
State nonmaintenance	100,000	830,469	827,522	2,947
County drain assessments	40,000	39,685	33,685	6,000
Equipment and capital outlay - Net of depreciation credits	(300,000)	(67,981)	(113,281)	45,300
Debt service:				
Principal retirement	625,000	650,000	645,000	5,000
Interest/Fees	66,525	83,635	62,189	21,446
Total expenditures	20,828,525	17,885,153	16,839,161	1,045,992
Excess of Expenditures Over Revenue	(2,631,661)	(2,853,168)	(1,227,531)	1,625,637
Other Financing Sources				
Proceeds from issuance of long-term debt	-	500,000	500,000	-
Proceeds from sale of assets	80,000	142,622	142,622	-
Total other financing sources	80,000	642,622	642,622	-
Excess of Expenditures Over Revenue and Other Financing Sources	(2,551,661)	(2,210,546)	(584,909)	1,625,637
Fund Balance - Beginning of year	5,702,993	5,702,993	5,702,993	-
Fund Balance - End of year	<u>\$ 3,151,332</u>	<u>\$ 3,492,447</u>	<u>\$ 5,118,084</u>	<u>\$ 1,625,637</u>

Other Supplemental Information

Berrien County Road Commission

Other Supplemental Information Schedule of Changes in Road Fund Balances Year Ended September 30, 2008

	Primary Road	Local Road	County Road	Total
Total Revenue	\$ 10,941,243	\$ 4,519,093	\$ 151,294	\$ 15,611,630
Total Expenditures	<u>10,851,317</u>	<u>6,267,785</u>	<u>(279,941)</u>	<u>16,839,161</u>
Excess of Revenue Over (Under) Expenditures	89,926	(1,748,692)	431,235	(1,227,531)
Other Financing Sources	<u>500,000</u>	<u>-</u>	<u>142,622</u>	<u>642,622</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures	589,926	(1,748,692)	573,857	(584,909)
Interfund Transfer	(1,748,692)	1,748,692	-	-
Fund Balance - Beginning of year	<u>2,900,307</u>	<u>-</u>	<u>2,802,686</u>	<u>5,702,993</u>
Fund Balance - End of year	<u><u>\$ 1,741,541</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,376,543</u></u>	<u><u>\$ 5,118,084</u></u>

Berrien County Road Commission

Other Supplemental Information Schedule of Road Fund Revenue Year Ended September 30, 2008

	Primary Road	Local Road	County Road	Total
State aid - Act 51:				
Michigan Transportation Fund:				
Engineering	\$ 6,667	\$ 3,333	\$ -	\$ 10,000
Allocation	5,970,221	2,858,424	-	8,828,645
Urban roads	1,160,090	531,260	-	1,691,350
Snow removal	24,983	12,870	-	37,853
Federal/State sources:				
Critical bridge	91,985	4,466	-	96,451
Economic development	689,439	-	-	689,439
Surface transportation program	1,619,171	-	-	1,619,171
Bridge	147,886	25,311	-	173,197
Contributions:				
Township	104,305	943,338	-	1,047,643
County	-	110,224	-	110,224
City and village	-	23,690	-	23,690
Special assessment - Principal and interest	125,328	-	-	125,328
Other revenue:				
Interest earned	8,117	-	100,288	108,405
Trunkline maintenance	89,014	-	-	89,014
Trunkline nonmaintenance	897,861	-	-	897,861
Salvage sales	-	-	19,706	19,706
Indrive culvert	6,176	6,176	-	12,352
Other	-	-	31,301	31,301
Total revenue	<u>\$ 10,941,243</u>	<u>\$ 4,519,092</u>	<u>\$ 151,295</u>	<u>\$ 15,611,630</u>

Berrien County Road Commission

Other Supplemental Information Schedule of Road Fund Expenditures Year Ended September 30, 2008

	Primary Road	Local Road	County Road	Total
Primary road:				
Heavy maintenance	\$ 3,423,952	\$ -	\$ -	\$ 3,423,952
Maintenance	4,446,735	-	-	4,446,735
Safety	3,723	-	-	3,723
Local road:				
Heavy maintenance	-	498,744	-	498,744
Maintenance	-	4,926,885	-	4,926,885
Safety	-	6,273	-	6,273
Primary road structures -				
Heavy maintenance	536,997	-	-	536,997
Local road structures -				
Heavy maintenance	-	200,121	-	200,121
Charges for services -				
State maintenance	902,295	-	-	902,295
Administrative expense - Net	730,778	535,065	-	1,265,843
Net equipment expense	82,805	83,855	7,438	174,098
Net capital outlay	-	-	(287,379)	(287,379)
Debt service:				
Debt principal payments	645,000	-	-	645,000
Interest expense	62,189	-	-	62,189
Drain assessment	16,843	16,842	-	33,685
Total expenditures	<u>\$ 10,851,317</u>	<u>\$ 6,267,785</u>	<u>\$ (279,941)</u>	<u>\$ 16,839,161</u>

Berrien County Road Commission

Other Supplemental Information Schedule of Road Fund Administrative Expenditures Year Ended September 30, 2008

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Office salaries and wages		\$ 975,827	
Repairs and maintenance		2,817	
Professional services		65,495	
Conference and travel		19,123	
Office supplies		22,698	
Advertising		3,826	
Dues and subscriptions		13,498	
Telephone		19,505	
Insurance		40,291	
Depreciation		46,909	
Equipment rental		25,389	
Utilities		11,363	
Miscellaneous		19,102	
Total administrative expenditures	<u>\$ 1,283,370</u>	<u>\$ 1,265,843</u>	<u>\$ 17,527</u>

Berrien County Road Commission

**Report to the Board of Road Commissioners
September 30, 2008**

**Plante & Moran, PLLC**

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St. Joseph, MI 49085
Tel: 269.982.8000
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To the Board of Road Commissioners
Berrien County Road Commission

We have recently completed our audit of the basic financial statements of Berrien County Road Commission (the "Road Commission") for the year ended September 30, 2008. In addition to our audit report, we are providing the following report on internal control, results of the audit, summary of unrecorded possible adjustments, other recommendations, and informational - legislative matters which impact the Road Commission.

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Report on Internal Control	1-2
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Summary of Unrecorded Possible Adjustments	6-7
Other Recommendations	8-9
Informational - Legislative Matters, etc.	10-11

We are grateful for the opportunity to be of service to the Berrien County Road Commission. Should you have any questions regarding the comments in this report, please do not hesitate to call us.

Plante & Moran, PLLC

December 29, 2008



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Report on Internal Control

December 29, 2008

To the Board of Road Commissioners
Berrien County Road Commission

Dear Commissioners:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Road Commission's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Berrien County Road Commission as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Inventory

Plante & Moran, PLLC observed the physical inventory that was performed at year end, as required by professional auditing standards. A sample of inventory items was selected and counted by Plante & Moran, PLLC as part of our testing of inventory balances. It was later discovered that quantities determined during the physical inventory for the aggregate piles of sand, gravel, salt, etc. were not used in the final inventory listing.

Road Commission employees had re-performed the measurements of the aggregate piles due to significant variances between the quantity calculated at the physical inventory and the perpetual inventory system. The new measurements, in addition to the garage foremen's inventory logs, were used to determine the final inventory counts. The documentation supporting the new quantities was not maintained and, therefore, we were unable to audit the accuracy of the final inventory recorded on the balance sheet, as required by auditing standards. As a result, a potential adjustment was proposed to management to adjust the inventory balances that we had not observed based on the physical counts that we did observe.

Due to the high level of estimation involved in determining the quantity of inventory contained in the aggregate piles, we recommend that a consensus be reached on the physical quantity in each pile before final counts are submitted to the finance director. If a decision to recount certain inventory items is made, Plante & Moran, PLLC must be advised so that we can determine the appropriate audit testing that must be performed related to the re-count. It is also important to retain all inventory logs to support perpetual inventory amounts.

This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Sharon L. Vargo, CPA
Partner



Plante & Moran, PLLC

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Results of the Audit

December 29, 2008

To the Board of Road Commissioners
Berrien County Road Commission

We have audited the financial statements of Berrien County Road Commission (the "Road Commission") for the year ended September 30, 2008 and have issued our report thereon dated December 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 20, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Berrien County Road Commission. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of Berrien County Road Commission, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit.

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on November 26, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Berrien County Road Commission are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the Road Commission during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the valuation of investment securities.

Management's estimate of the valuation of investment securities is based on the current quoted market rates. We evaluated the key factors and assumptions used to develop the valuation of investment securities in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated December 29, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the Road Commission, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Road Commission, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Road Commission's auditors.

This information is intended solely for the use of the Board of Road Commissioners and management of Berrien County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Sharon L. Vargo, CPA
Partner

To the Board of Road Commissioners
Berrien County Road Commission

December 29, 2008

Client: Berrien County Road Commission
Opinion Unit: Governmental Activities
Y/E: 9/30/2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
KNOWN MISSTATEMENTS:						
A1	To correct the overstatement of the inventory balances	\$ (104,000)				\$ 104,000
A2						
ESTIMATE ADJUSTMENTS:						
B1						
IMPLIED ADJUSTMENTS:						
C1	To record interest on investments	30,800			\$ 30,800	
		-	\$ -	\$ -	-	-
	Combined effect	<u>\$ (73,200)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,800</u>	<u>\$ 104,000</u>

To the Board of Road Commissioners
Berrien County Road Commission

December 29, 2008

Client: Berrien County Road Commission
Opinion Unit: General Fund (Major Governmental Fund)
Y/E: 9/30/2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Assets	Liabilities	Fund Balance	Revenue	Expenditures
KNOWN MISSTATEMENTS:						
A1	To correct the overstatement of the inventory balances	\$ (104,000)				\$ 104,000
A2						
ESTIMATE ADJUSTMENTS:						
B1						
IMPLIED ADJUSTMENTS:						
C1	To record interest on investments	30,800			\$ 30,800	
		-	\$ -	\$ -	-	-
	Combined effect	<u>\$ (73,200)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,800</u>	<u>\$ 104,000</u>

Other Recommendations

Berrien County Road Commission

Other Recommendations

Outstanding Checks

During our testing of the Road Commission's cash balances, it was noted that there were several old outstanding checks, some dating as far back as 2000. Under the State of Michigan escheat law, after five years, any check that is still outstanding is considered abandoned if no contact has been made on the part of the owner in writing to the financial institution concerning it or the owner has not otherwise indicated an interest in it. The Road Commission can then escheat the checks with the State and reclaim the funds. We recommend that management follow up as necessary on these old outstanding checks.

Investments

Berrien County is responsible for investing excess funds of the Road Commission in legally permissible and allowable investments (as defined by the State of Michigan). The Road Commission then records this investment activity in its general ledger based on the activity recorded by the County in its ledger system. There can be a timing difference between when an investment transaction occurs and when the County records the activity in its general ledger. Due to the current environment of the investment markets, we recommend that Road Commission management take a more active role in monitoring the investment process including knowledge of the type of investment vehicles used and the impact of any market fluctuation. Management may want to request monthly investment statements and activity from the County to assist in this monitoring process.

Informational

Audit of Federal Expenditures

OMB Circular A-133 requires that a compliance audit be performed if expenditures incurred with federal funds exceed \$500,000 in a given year. For the past several years, the Road Commission's largest grants have consisted of the types of federal funds that are fully administered by the Michigan Department of Transportation (MDOT). There have not been federal funds expended directly by the Road Commission in excess of the \$500,000 threshold. Therefore, the Road Commission has not been required to have a separate federal grant compliance audit for several years. In the future, when costs are incurred from grants that are not fully administered by MDOT, the Road Commission will need to have this separate audit if federal expenditures exceed \$500,000 in a given fiscal year.